SECNAVINST 7110.12
ASN(FM&C)
28 Mar 2019

SECNAV INSTRUCTION 7110.12

From: Secretary of the Navy

Subj: ACQUISITION PROGRAM COST ANALYSIS

Ref: (a) DoD Instruction 5000.02 of 7 January 2015
       (b) DoD Instruction 5000.73 of 9 June 2015
       (c) SECNAVINST 5000.2E
       (d) OSD(CAPE) memo, "DoD Cost Analysis Data Improvement"
           of 9 January 2017
       (e) OSD(CAPE) publication, "Operating and Support Cost-
           Estimating Guide" of March 2014
       (f) MIL-STD-881D
       (g) SECNAVINST 5400.15C
       (h) 10 U.S.C. §2334
       (i) DoDM 5000.04, Cost and Software Data Reporting
           Manual of 18 April 2018
       (j) SECNAV M-5214.1

Encl: (1) Responsibilities
       (2) Cost Analysis Requirements Description Procedures
       (3) Definitions

1. Purpose

    a. To establish policy and assign responsibilities
throughout the Department of the Navy (DON) for conducting cost
analysis for proposed and designated Acquisition Category (ACAT)
programs.

    b. This instruction replaces SECNAVINST 5223.2A and
SECNAVINST 5420.196A. This instruction is a complete revision
and should be reviewed in its entirety.

2. Cancellation. This instruction cancels SECNAVINST 5223.2A,
SECNAVINST 5420.196A, SECNAVINST 5740.29B, and supersedes
Assistant Secretary of the Navy (Financial Management and
Comptroller) (ASN(FM&C))/Assistant Secretary of the Navy
(Research, Development and Acquisition) (ASN(RD&A)) Memorandum
of 7 January 2010, "Department of the Navy Service Cost
Positions" and ASN(FM&C) serial 5223 Memorandum of Agreement of
5 September 2012, "Sharing of Cost Models."

3. <u>Applicability</u>. This instruction applies to the Office of the Secretary of the Navy (SECNAV), the Chief of Naval Operations (CNO), the Commandant of the Marine Corps (CMC), all U.S. Navy and U.S. Marine Corps installations, commands, activities, and field offices, and all other organizational entities within DON.

4. <u>Policy</u>. Senior DON leadership and decision makers should consider cost estimates provided by Systems Command (SYSCOM) cost analysis organizations before making milestone, programming or budgeting decisions.

    a. The Component Cost Position (CCP) shall serve as the official cost estimate for an ACAT I or ACAT IA program. A CCP shall be developed for all ACAT I and ACAT IA programs at each milestone review and at other times as required by references (a) through (c).

    b. The Program Office Estimate (POE) should serve as the official cost estimate for a program in the absence of a CCP.

        (1) The POE for all ACAT programs should be developed by the respective SYSCOM cost analysis organization or as delegated by the SYSCOM Cost Director while maintaining overall oversight.

        (2) The POE should include risk and uncertainty analyses and be documented in writing.

    c. The SYSCOM cost estimating organizations shall be provided access to any records and data in the DON that they consider necessary to review and conduct their responsibilities assigned in this instruction. This includes classified and unclassified information, Navy Nuclear Propulsion Information, and proprietary information; and program data. When source selection information is to be used as a basis, in whole or in part, of a cost estimate, each cognizant DON cost analysis organization shall be provided access to that information. Information access controls will be followed as required by relevant policy directives.

    d. A Cost Analysis Requirements Description (CARD) shall be developed for all ACAT programs as a basis for cost estimating whenever a POE is required, and as otherwise required in references (a) through (d). The CARD shall include all information in accordance with reference (d) following the procedures in enclosure (3).

(1) DON cost analysis organizations shall review and accept the CARD prior to final approval.

(2) The Program Manager (PM) shall update the CARD annually.

e. Cost and Software Data Reporting (CSDR) plans and cost reports shall be reviewed and approved by DON cost analysis organizations.
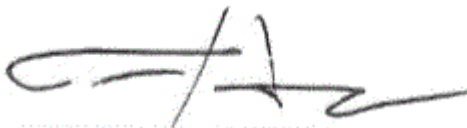
f. Cost estimates for all programs that are subject to reference (c) shall be completed in a cost estimating structure that shall follow references (e) and (f). The standard in reference (f) is mandatory for all ACAT I, II, and III programs.

5. <u>Responsibilities</u>. See enclosure (1).

6. <u>Records Management</u>. Records created as a result of this instruction, regardless of format or media, must be maintained and dispositioned according to the records disposition schedules found on the Directives and Records Management Division (DRMD) portal page: https://portal.secnav.navy.mil/orgs/DUSNM/DONAA/DRM/SitePages/Home.aspx

7. <u>Reports</u>. The reporting requirement contained in paragraphs 4e, enclosure (1) 2d, 5(2) and 5(3), 6(2) and enclosure (3) 1 are exempt from information control, per Part IV, paragraphs 7j, 7k and 7q, per reference (j) and requires no Report Control Symbol.

THOMAS W. HARKER
Assistant Secretary of the Navy
(Financial Management &
Comptroller)

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RESPONSIBILITIES

1. ASN(FM&C) shall provide policy oversight for cost analysis.

2. The Director of FMB-6 shall:

    a. Serve as the principal advisor to DON leadership on issues of cost and economic analysis policy;

    b. Prescribe policies, procedures and standards for the conduct of cost estimation, cost analysis and economic analysis, and for reporting cost estimates and comparisons to the budget;

    c. Develop, maintain and distribute DON inflation policy and factors;

    d. Review and approve proposed CSDR plans and contractor-submitted cost reports for DON submission to Office of the Secretary of Defense Cost Analysis and Program Evaluation (CAPE).

3. CNO and CMC shall resource subordinate organizations with qualified personnel to support the procedures and requirements herein, and provide timely notification for CCP requirements or cost analyses needed to support acquisition, programming, and budgeting reviews.

4. The Commanders of Naval Air Systems Command, Naval Sea Systems Command, Space and Naval Warfare Systems Command, and Marine Corps Systems Command shall:

    a. Validate the technical and programmatic requirements contained in the CARD before the CARD is submitted to the appropriate cost analysis organizations for review;

    b. Provide Earned Value Management (EVM) program support. Support estimate to complete analyses, schedule risk assessments, management systems assessments and integrated baseline reviews. Implement the use of common tools to collect, report and manage EVM data.

5. Directors of SYSCOM cost analysis organizations shall provide cost estimating and analysis services to acquisition PMs, per reference (g). The SYSCOM Cost Director shall:

a.   Provide comprehensive cost analysis support, EVM/Integrated Program Management (IPM) support, and scheduling support to the Program Executive Officer (PEO) and PM for acquisition, non-acquisition pre-milestone A, Rapid Deployment Capability and special interest programs throughout all program life cycle phases;

b.   Support the PEO, PM, Navy resource sponsor and Headquarters Marine Corps programming office with acquisition program cost information throughout all phases of the milestone review process, the acquisition gate review process, and the budgeting and programming processes;

c.   Serve as the approving technical authority for outsourced program cost analysis support and outsourced EVM support.

     (1) Support contractors working for the program office or PEO are not part of the SYSCOM cost analysis organization and may only perform program cost estimates after receiving prior written approval from the SYSCOM Cost Director.

     (2) Cost analysts at a Navy warfare center or Navy working capital fund activity may be considered part of the SYSCOM cost analysis organization, provided their funding has been approved by the SYSCOM Cost Director.

d.   Develop the POE on behalf of the PM for acquisition programs or delegate while maintaining oversight.

     (1) The POE should reflect the information and assumptions provided in the approved program CARD. If the CARD contains questionable, contradictory or missing information, the SYSCOM cost analysis organization shall notify the PM to update the CARD to make it consistent, clear and complete.

     (2) Directors of SYSCOM cost analysis organizations will exercise technical authority to establish cost estimating technical standards, tools and processes that are independent of programmatic authority per reference (g). Technical authority does not equate to the authority granted in reference (h).

e.   Review and accept program CARD documents for all acquisition programs prior to final approval;

    f.   Monitor programs to identify potential contracting efforts that meet contractor cost reporting thresholds (to include sustainment efforts).

        (1) Advise PMs regarding contractor cost reporting;

        (2) Review proposed program plans for contractor cost data reports and software resource data reports, and make recommendations to FMB-6;

        (3) Review and approve contractor-submitted cost reports.

    g.   Provide cost analysis support for echelon I and echelon II objectives;

    h.   Appoint an organization cost librarian, and upload completed cost research studies consistent with section 4b of reference (b);

    i.   Develop and publish documentation standards for recording the details of SYSCOM cost estimates and analyses;

    j.   Provide cost team leadership for each program's Cost Working-level Integrated Product Team (WIPT).

6. <u>PMs</u> shall use the cost and risk information provided by DON cost analysis organizations for their programs. Additionally, PMs shall:

    a.   Develop the CARD;

    b.   Obtain the approval of the respective SYSCOM Cost Director prior to contracting for program cost estimating and analysis support, EVM/IPM support, and scheduling support;

    c.   Insert and reinforce contract terms that provide the required contractor cost data to be collected per references (a), (b), and (i).

        (1) Coordinate with the respective SYSCOM Cost Organization to ensure that the required contract terms for contractor cost data reporting are accurately identified, and that Contract Data Requirements List (CDRL) requirements are

developed in accordance with the data needs for cost analysis and evaluation of contractor efforts.

(2) Assign a Subject Matter Expert (SME) to review and ensure contractor data reporting is accomplished in accordance with the requirements and the CDRLs. The SME shall be chosen in consultation with the SYSCOM Cost Director to ensure the SME has the appropriate level of expertise to evaluate contractor data reports and identify questions, concerns and issues to the PM and SYSCOM cost analysis organization.

d. Plan for the CCP process in the development of program acquisition schedules for ACAT I and IA programs. Cost estimating support requirements shall be identified as early as possible and coordinated with the supporting SYSCOM cost analysis organization;

e. Provide all data and information requested by the SYSCOM cost analysis organization in the time allotted to allow generation of the respective cost products and analyses;

f. Identify to the SYSCOM cost analysis organization, in a timely manner, any cost-related or cost-impacting issues that may affect the development of the cost estimate or analysis;

g. Establish a Cost WIPT for each acquisition program.

7. DON activities shall review existing guidance and instructions and cancel or update to comply with reference (b) and this instruction. Implementing directives, instructions, regulations, memorandums, and related issuances shall be kept to a minimum. Distribute this instruction to appropriate command personnel and send recommended changes of this instruction to ASN(FM&C).

COST ANALYSIS REQUIREMENTS DESCRIPTION PROCEDURES

1. Development of the CARD is the responsibility of the PM.

2. A draft CARD is required to be submitted to the cognizant cost estimating organizations 210 calendar days prior to the respective decision meeting, gate review or equivalent.

3. SYSCOM authorities will review the technical and programmatic information in the CARD before it is submitted to the appropriate cost analysis organizations for review.

4. Prior to final approval, cost analysis organizations will review the CARD to determine if a cost estimate can be developed based on the parameters and information presented in the CARD. If the CARD contains questionable, contradictory or missing information, the SYSCOM cost team will notify the PM to update the CARD to make it consistent, clear and complete.

5. The final approved CARD is required to be submitted to the cognizant cost estimating organizations 45 calendar days prior to the respective decision meeting, gate review, or equivalent.

6. Annual updates of the CARD should reflect the latest program information; all pertinent information that describes configuration changes; additional known programmatic, contractual, financial or system information; reassessment of risk; and any other changes to the program that may affect the calculation of program costs or cost risk.

DEFINITIONS

1. <u>Cost Working-level Integrated Product Team (WIPT)</u>. The Cost WIPT is a team of cost estimating and program management personnel that is established to assist the PM regarding cost-related issues. A primary function of the Cost WIPT will be to assist the PM in completing the CARD requirements per references (a), (b) and (d). The Cost WIPT will ensure program information and reporting adequately supports the development of the respective cost estimates in a timely manner. A primary function of the Cost WIPT will be to complete the CSDR plan requirements when CSDR reporting is required by reference (a). The Cost WIPT should be established prior to milestone A or upon program initiation if the program enters the acquisition process post-milestone A. Cost WIPT membership should include representatives from the program's cost estimating, contracts, technical, logistics, and software engineering competencies. Representatives from CAPE and the Defense Cost and Resource Center should be included as members of the Cost WIPT for ACAT I programs. The Cost WIPT should meet on at least a quarterly basis. The Cost WIPT for ACAT II, ACAT III and Non-ACAT programs should meet as needed to address questions and concerns of the POE development team regarding program plans, technical baselines and other aspects of the program that have cost implications. The Cost WIPT for ACAT II and below programs will also address CSDR requirements but will primarily focus on information availability for POE development.

2. <u>Program Office Estimate</u>. The POE is the cost estimate developed by a SYSCOM cost analysis organization on behalf of the program management office. The POE is a life-cycle estimate of all resources and associated cost elements required to develop, produce, deploy, sustain, and dispose of a particular system over the total life cycle of the program or project. The POE was previously identified by the term "Program Life Cycle Cost Estimate" or the acronym "PLCCE" in various DON and DoD policy. A POE may be developed or updated at the request of the milestone decision authority or to support budgeting and programming processes. The SYSCOM-developed POE should be used to inform all budgeting activities, affordability decisions, cost discussions and contract actions (e.g. independent government cost estimates or negotiation positions).

3. <u>SYSCOM Cost Analysis Organization</u>. The department or major division of an acquisition SYSCOM that is assigned responsibility for acquisition cost analysis. The cost estimating departments of the commands indicated below are collectively referred to as the "SYSCOM cost analysis organizations."

    a.   Naval Air Systems Command;

    b.   Naval Sea Systems Command;

    c.   Space and Naval Warfare Systems Command;

    d.   Marine Corps Systems Command;

    e.   Navy Engineering Logistics Office;

    f.   Strategic Systems Programs.

Enclosure (3)